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FAIR Act: The Best Way to Enter the New Century

Democrats Aim to Derail 1996 Farm Bill's Market-Driven Policies

The recent slump in commodity prices has sparked much discussion around the kitchen tables and executive roundtables of America. While some farmers in the Northern Plains and a few other areas are in distress, the nation's agricultural community is not facing a national farm crisis, but rather a test. Will scorching political rhetoric scare Congress into retreat?

The sweeping nationwide election-year measures proposed by Senate Democrats to deal with the alleged "crisis" will do more harm than good.

It is clear the 1996 Freedom to Farm Bill is serving its purpose. Farmers are shifting their planting patterns and growing the mix of crops that bring them the greatest returns and meet their individual agronomic needs in an environmentally responsible fashion. The wholesale acreage shifts seen recently could not have occurred under the old farm policy when the disincentives to change crops were simply too great. "Freedom to Farm" is a package deal. Its aim is to leave planting decisions in the hands of farmers, not government. To achieve this goal, the FAIR Act provides full planting flexibility, bans production controls and decouples income support payments.

The success of the FAIR Act is not to suggest that farmers don't have legitimate concerns. Trade barriers continue to be enemy number one. The farm community's rightful demands for policies that promote free trade and open markets have not been fully met. Sanctions policies that punish farmers and do little to punish offending countries need to be reformed. Meanwhile, farmers face continuing trade barriers at the same time that weather conditions and the Asian crisis are compounding the problem.

Farm Facts

Based on its July 10 crop reports, the Department of Agriculture projects that farmers will receive an average of $2.90 per bushel for 1998-crop wheat. This would put the average wheat price for the 1996-1998 period covered by the FAIR Act at $3.53, slightly above the $3.50 average for 1991-1995, the period covered by the 1990 farm bill. USDA projects corn prices will average $2.15 in 1998. If correct, this will leave the 1996-1998 corn price average at $2.44 compared to $2.49 for 1991-1995. Soybean prices are currently projected to fall to $5.35 per bushel in 1998, but they would still average $6.38 over 1996-1998, well above 1991-1995's average of $5.95.

While crop failures have occurred in some areas during the last few years — particularly during the 1997 flood — statistics taken from the North Dakota Agricultural Statistics Service show that in 1996, North Dakota ranked first in the country in the production of eight crops, second in two, third in one, and fourth in two. In 1997, the state ranked first in the production of seven crops, second in two, and third in one.

Economic Facts Underlying the Current Price Slump

Despite the rhetoric of opponents, the FAIR Act isn't the culprit for today's slump in commodity prices. Rather, prices reflect large world grain supplies, a direct result of the high prices in 1995 and 1996, plus this year's decline in Asian demand. If it were not for the Asian crisis, the United States would be well on the road to setting another all-time record for the dollar value of farm exports. USDA's current projection of $56 billion in 1998 exports is about $4 billion less than the 1996 record of $60 billion. If Asian demand had simply matched last year's level, with no growth, we would match the $60 billion figure. USDA forecasts that our exports to non-Asian countries actually will be 8 percent greater than in the record-setting year of 1996.

Success of the FAIR Act

As farmers successfully make the transition from government-controlled farming to the free market and can better position themselves in world markets, we can expect greater gains. A comparison of statistics from 1993 and 1997 in North Dakota shows a dramatic shift to the production of higher-value crops. Soybean acreage increased by nearly 500,000 acres; canola by 409,000 acres; dry peas by 61,152 acres; and navy beans by 151,451 acres.

Reports from the Minnesota Agricultural Statistics Service indicated that the state would break its record soybean acreage by 850,000 acres in 1997.

South Dakota was no exception to the trend. Harvested soybean acres were 780,000 above the previous record — set in 1996 — and sorghum production was up 42 percent.

The success of the 1996 Farm Bill cannot be measured simply by changes in the Northern Plains. Dramatic planting changes have occurred in the South as well. Alabama cotton acreage fell by 74,000 acres in 1997, while soybean acreage increased by 70,000. Cotton acreage declined in 1997 from the 1994-96 average in Louisiana, Mississippi, and Arkansas by 34 percent, 23 percent, and 9 percent, respectively. Planted corn acres in 1997 for Arkansas, Louisiana, and Mississippi increased by 52, 66, and 35 percent over the 1994-96 averages. Soybean acres also increased. Cotton acreage in Oklahoma declined 42 percent while sorghum acres increased 31 percent. Soybean acres increased by 50 percent over the three year average in Texas, while cotton acreage in Tennessee decreased 18 percent from the three-year average, and soybean acreage increased 14 percent.

And while opponents argue that prices have fallen because producers are now planting "fence-row to fence-row," the most recent USDA plantings report shows that estimated planted acres for 1998 have fallen from the level in 1997. Farmers are responding to the market by reducing production.

The FAIR Act's Safety Net

USDA currently projects that net cash income will amount to $56 billion in 1998, a 7-percent reduction from last year. The drop is not insignificant, but $56 billion is still nearly $3 billion *higher* than the average net cash farm income level for 1991-1995, the period covered by the 1990 farm bill.

The FAIR Act is a source of help, not harm, for farm income. For 1996-98, the "freedom to farm" payments under the FAIR Act *will total $17.18 billion.* Had the 1990 farm bill remained in effect, that program's deficiency payments, which vary depending on market prices, *would have been only $9.63 billion* over the same period. In other words, under the old farm policies, the federal government would have provided *$7.55 billion less* in support for American farmers' incomes.

Total payments to several states show the safety net remains in place. The 1991-95 average government payments to North Dakota were $265.458 million per year, compared to a 1996-97 average of $276.990 million per year. South Dakota's five-year average was $132.334 million compared to the recent two-year average of $167.459 million. The comparisons are similar in additional areas of the country.

Even in 1998, payments would not have been significantly higher under the old system: 1998 "freedom to farm" payments will total $5.7 billion, while they would have been $5.8 billion under the old farm bill. But under the old farm bill, farmers would have been saddled with the extra burden of acreage reduction programs and inflexible planting rules.

Avoiding Distortions in the Marketplace

Another element in the FAIR Act is relatively low loan rates, which, like other features in the Act, are to assure price supports are a short-term marketing tool, not an alternative market. Loan rates should not be set so high as to distort farmers' planting decisions, and they should not tie up grain in storage for such a long period of time that market signals are distorted. That is why proposals to raise loan rates, or extend the time for loans, are doubly objectionable. Not only do they affect the federal budget, they also put the government back into the business of substituting its judgment about crop decisions for the market's judgment.

Currently, farmers receive transition payments on 85 percent of their contract acreage using historical yields. USDA estimates that 1998 payments will be 65 cents per bushel of eligible wheat production. Adding the transition payment to the current $2.58 loan rate for wheat creates a "safety-net" of $3.23. This is interesting to note, as the advocates of removing the loan caps have stated that doing so would cause the loan rate to rise to $3.20-to-$3.25.

Raising loan rates creates several problems. First, it artificially inflates U.S. prices compared to the world market and could make our prices uncompetitive. Second, higher rates cause farmers to hold onto their crops for longer periods of time and produce for the government's artificially high price. Both factors contribute to a surplus that over time drives prices lower than would otherwise be the case. Additionally, if farmers hold their grain for extended periods of time, it creates storage problems and makes it more difficult to move grain out of the country elevators and into the terminals. The problems could be very similar to those experienced in the plains last fall.

The FAIR Act provides farmers with substantial financial assistance, but lets the marketplace establish price instead of attempting to establish an artificial price floor. For farmers concerned about the potential for low prices, FAIR's transition payments can be used to help purchase individualized protection such as crop or revenue insurance or even purely private-sector risk management tools, such as options on exchange-traded futures contracts.

Let the Marketplace Work

While many producers are experiencing a temporary decline in price, retreating from the forward-looking reforms of the 1996 Farm Bill is not the answer. The global marketplace of the new century is a reality, and all indicators support the continued implementation of "freedom to farm" as the best way to assure needed flexibility and long-term prosperity for America's agricultural community. Meanwhile, Congress and the Administration should redouble their efforts to assure a fair playing field around the globe, and that no doors are closed by ineffective sanctions policies. Let the marketplace work and reject the failed farm policies of the past.

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